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Restaurant Business

A BILL PUBLICATION

MARCH 20 1988

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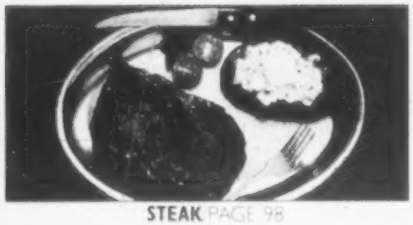
MAJOR FORCES IN FRANCHISING



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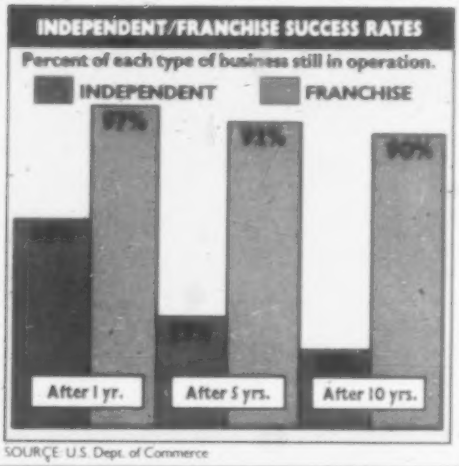
BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

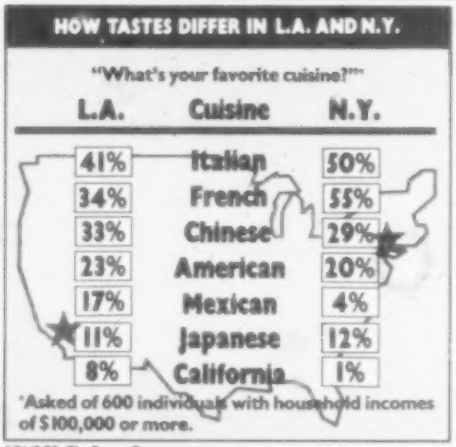
By Howard Riell



SOURCE: U.S. Dept. of Commerce

Franchising And Surviving

Franchise business now accounts for one-third of all retail sales in the U.S., more than $590 million. Why is franchise longevity so much greater than independent businesses? Franchising allows individuals a chance to enter the rapids of today's business world with maximized chances of success and minimized risk, thanks to the complete package of controls and systems provided by the franchisor. And it gives franchisors the opportunity to expand far more widely and quickly than their own capital requirements would allow. (For more on franchising, turn to our cover story, starting on page 91.)



SOURCE: The Roper Organization

Appetites From Coast To Coast

The regionalization of menus continues, as operators search for more and better ways to give customers what they want and differentiate themselves from their competitors. But satisfying restaurant goers' regional tastes may prove more complicated than simply experimenting with native foods. Even the classic cuisines meet with varying degrees of acceptance. New York and Los Angeles, whose dissimilarities run deeper than mere geography, reflect some of those differences. The response to each cuisine—particularly each city's minimal acceptance of California-style food—remains illuminating.

SOURCE: The Gallup Organization

Buying Food On The Fly

At first glance, the Gallup statistics are not surprising. Asked what they bought on their visit to a convenience store, customers listed burgers, soda, and then the rest of the items. But of equal interest are the menu items that didn't score well. Among them: Mexican food/tacos (1%), pastries (5%), ice cream and yogurt (3%), fried chicken (7%), and breakfast foods (1%). These figures may well outline the boundary past which c-stores cannot travel. Consumers may simply be deciding that they will not accept the more "exotic" cuisines from retailers who also sell gasoline, pet-care products, and toilet paper.

CHARTS DESIGNED BY SHARI FANG

RESTAURANT BUSINESS

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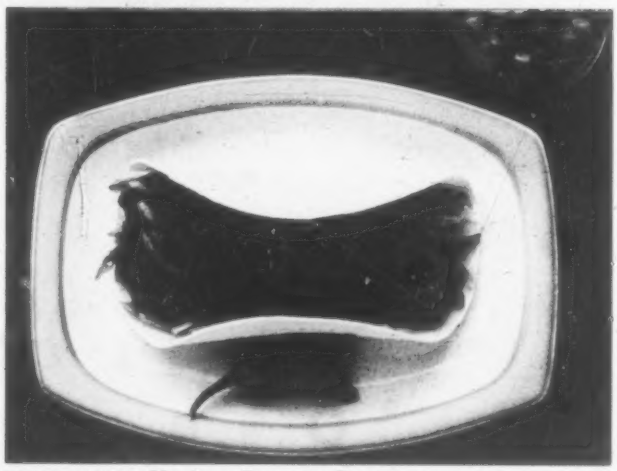

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EXCLUSIVE REPORT **FRANCHISING.** *Franchised restaurant sales have grown to capture more than 44% of the lucrative separate eating place market, notching $56.8 billion in sales in 1987. Franchising continues to represent a significant opportunity within the foodservice industry. RB's 23rd annual franchising report analyzes the forces that are shaping the franchised restaurant sector* 91

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Cover Photography by Amy Reichman.
Foodstyling by Stephen Shern.

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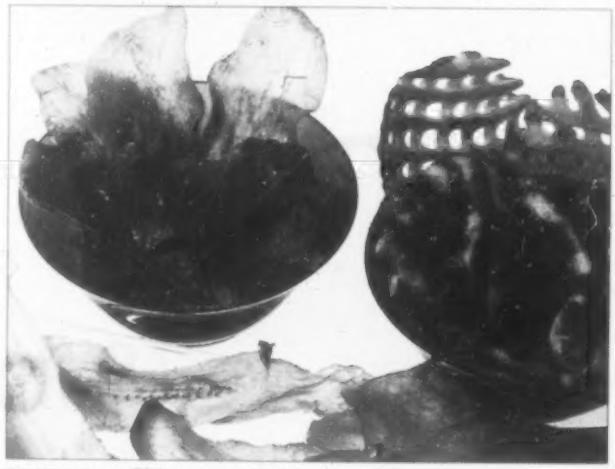

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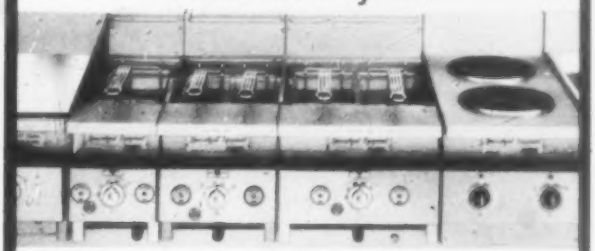

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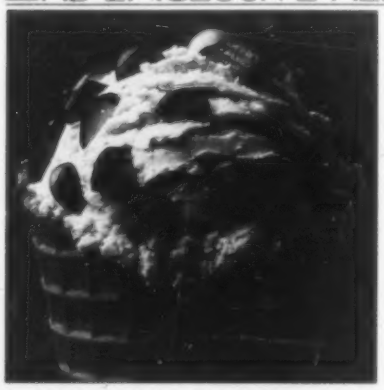

ANTI REICHMAN

ICE CREAM

SPECIALTY PRODUCTS AND CONCEPTS ARE WHERE THE GROWTH IS OCCURRING.

Despite health and diet concerns, ice cream still reigns as a favorite with Americans. A number of trends are influencing the franchised ice cream chains, including: a move to reposition the product as an upscale, adult snack rather than a treat for children or teens; a diversification of menu items at traditional ice cream shops to increase business at various dayparts; an emphasis on fresh-made product; and the proliferation of premium ice cream/novelty products and frozen yogurt concepts.

International Dairy Queen (IDQ), headquartered in Minneapolis with more than 5,000 stores in the U.S., Canada, and 13 foreign countries, is a prime example of how the traditional ice cream franchisor is changing with the times. This spring, IDQ's Brazier units—those with inside seating and a complete fast-service menu, comprising about 60% of the chain—are introducing a new sandwich called "The Ultimate." This signature sandwich features two six-to-one (six patties per pound) home-style patties, with two slices of cheese, tomato, bacon, lettuce, pickles, and sauce on a sesame-seed bun. In addition, the chain is entering the premium novelty market with "The Chocolate Mountain Bar," a premium vanilla ice cream bar smothered in a rich, dark chocolate.

A new building design, called the "M-25," was introduced last year, featuring a wraparound corner solarium, designed to position the company for the '90s and beyond. Eighty such units are already in operation. The next step for IDQ, moving it farther away from its traditional soft-serve ice cream roots, is the development of its new "Treat Centers" concept, seven of which premiered in 1987. Following the chain's 1986 purchase of the 230-unit Karmel Korn chain and the 1987 purchase of the Orange Julius system of 750 mall units, IDQ plans to combine all three concepts—Dairy Queen, Karmel Korn, and Orange Julius—behind one storefront in malls.

Systemwide sales for the chain were estimated to exceed $2 billion in 1987, an increase from $1.7 billion in 1986. An IDQ franchise involves a $30,000 initial fee, plus 4% royalties and 3% to 5% in advertising contributions.

Columbus, OH-based G.D. Ritzy's is also steering away from its ice cream roots of the early '80s with a name, decor, and theme change. Now called Ritzy's, America's Food Favorites, the concept is targeting the 18- to 48-year-old, middle-income customer with its art-deco, '50s-theme diner format, according to Richard Einhorn, group vice president of franchising operations. In so doing, the company hopes to reverse a $1.9 million loss in 1986.

Although the chain's all-natural ice cream is still a signature item, the restaurant menu runs the gamut from hot dogs and Coney dogs to grilled chicken sandwiches, hamburgers, steamed vegetables, and garden salads. With 54 units (17 of which are franchised) in the chain throughout the Midwest and Southeast, the company plans to add as many as 10 more units in 1988. Ritzy's grants multi-unit franchises. The initial fee is $15,000; royalties and advertising contributions are set at 3.5% and 5.5%, respectively.

MOVING UPSCALE. As the ice cream segment has moved upscale, even chains such as Häagen-Dazs, based in Englewood Cliffs, NJ, have experimented with new products to differentiate themselves from the pack. In December, Häagen-Dazs' 265 franchised units introduced "Ice Cream Miniatures," minibars of vanilla, chocolate, or coffee ice cream dipped in imported Belgian dark chocolate. Yogurt and baked goods are in test in different markets, says spokesperson Delphine Gasz. Although the

ICE CREAM AND YOGURT STORES (60 franchisors)

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1986	$1,446,210	$140,827	$1,305,383	8,473	287	8,186
1987*	1,610,646	150,668	1,459,978	9,272	320	8,952
1988*	1,880,191	171,674	1,708,517	10,586	372	10,214

** Estimated by respondents.*

company has limited its franchising expansion to current franchisees, it is pushing hard to market its exclusive flavors such as cappuccino, brandied black cherry, and macadamia nut. Häagen-Dazs charges an initial fee of $25,000, plus royalties, which vary according to volume; advertising takes 4% of sales.

Gunning to become the frontrunner among premium chains is Steve's Homemade Ice Cream Inc., based in Lindenhurst, NJ, which acquired Phoenix-based Swensen's last fall. According to Steve's vice president Emily Skoler, the company plans on continuing to operate the two concepts separately.

Famous for its mix-in feature since 1972, Steve's is this year introducing what it calls an "amazing liquid," a liquid pour-in (chocolate, butterscotch, and strawberry) which hardens on contact with the ice cream. The chain is also looking at variations of ice cream and sorbet drinks, as well as the introduction of a hard and soft-serve gourmet yogurt, and is currently testing a number of cafe-concept items such as Belgian waffles and ice cream crêpes.

A new prototype design combines the homeyness and wood of the classic Steve's with a contemporary, bright, and funky decor. With more than 100 Steve's and 260 Swensen's, the company is looking at expanding into Midwestern and Western markets from the Northeast.

Initial fee for a Steve's franchise is $25,000; for a Swensen's, $20,000. Royalties for Steve's and Swensen's are, respectively, 6% and 5.5% of sales; advertising contribution for each is 1%.

With head-to-head competition for all of the ice cream stores coming from new frozen yogurt shops, many chains in the segment are adding or re-marketing a yogurt product. Yonkers, NY-based Carvel Corp., a pioneer in the ice cream franchise industry, was among the first to introduce frozen yogurt in 1972 with its Lo-Yo and "Thinny Thin" products; the 800-unit chain is now considering a major marketing push for these items.

Glendale, CA-based Baskin-Robbins has retrofitted one of the dipping cabinets in many of its franchised units to hold 30 dry and fresh fruit toppings for the frozen yogurt product it brought out of test last July.

With sales of $650 million and more than 3,400 units in the U.S. and abroad, Baskin-Robbins is hoping to grow both through franchising and joint-venture arrangements with other chains. Although the company recently ended a year-long joint venture test with Wendy's, it is looking for another fast-food concept in which to locate counters.

HOTTEST EXPANSION. The hottest expansion in the franchise segment appears to be within the frozen yogurt sector, as yogurt's health appeal and flavor variety continue to draw customers away from hard ice cream.

TCBY (The Country's Best Yogurt), based in Little Rock, AK, says it will have 1,000 units open by mid-spring in 49 states and Canada; less than 10% will be company-owned. With an average unit sales volume of $217,000, the company plans on being the first in its segment to premiere network television advertising in April in a national feed out of New York, according to Roger Stout, senior vice president. Franchise fee for a TCBY is $20,000; royalties and advertising are 4% and 3% of sales, respectively. Only single-unit franchises are granted.

Smaller regional chains, such as Heidi's Frogen Yozurt, based in Laguna Hills, CA; Zack's Famous Frozen Yogurt Inc. in Metairie, LA; and Everything Yogurt in Staten Island, NY, are all doubling sales volumes and in some cases tripling unit growth since 1986.

And as the U.S. market becomes more saturated with both mom-and-pop yogurt operations and yogurt chains, many operators are looking toward overseas expansion. J. Higby's Yogurt, based in Sacramento, CA, has 88 units open or under construction in the U.S. but has sold 2,009 franchises in Japan, Singapore, and Canada, with another 250 units slated in South Korea. Initial franchise fee is $20,000; royalties and advertising contribution are 4% and 2.5% of sales, respectively.

Recently, Higby's introduced a hard-pack formula this January, with the ability to hold like premium ice cream, in vanilla, chocolate, and strawberry. Says Richard Crosby, vice president of finance: "The problem with selling frozen yogurt from the machine by the pint or quart is that it only holds for 48 hours. But we're looking at adding eight to 12 more exotic flavors in the hard-pack formula, which will increase our take-out sales."–**Dolores A. Long**

STEVE'S ICE CREAM: *"Mixins" and gourmet flavors are central to the concept.*

AMY REICHMAN

DONUT

OPERATORS ARE ADDING NEW MENU ITEMS TO FOSTER CUSTOMER INTEREST AND DAYPART EXPANSION.

This decade has seen a dramatic repositioning of the traditional donut shop. Once a one-product outlet that catered to the breakfast audience, the donut shop has changed, now offering a variety of baked goods as well as fast-food items to cater to a broader audience throughout the day.

With the entry of the giant fast-food chains into the breakfast sector, and the proliferation of bakery/deli sections at local supermarkets, donut operations could no longer rely on a shrinking pool of breakfast daypart customers. Today, donut chains are surviving the ever-increasing competition by introducing a more varied menu mix and stepping up their marketing efforts in order to attract more customers.

Dunkin Donuts, founded in 1950 with one shop in Quincy, MA, and now the largest chain in the franchise donut segment with more than 1,500 units in the U.S. and 13 foreign countries, began positioning for the future back in 1984. Since then, the company has introduced various new products such as cookies, brownies, muffins, and croissants; boosted advertising and distribution efforts; remodeled stores; and, most recently, contracted with a major soft drink company to boost its soft drink sales and attract an even larger slice of the young adult market. Adding convenience features such as drive-thru windows and express service counters, as well as separate dining areas, was all part of the company's concerted effort to boost sales past $648 million, an average of $454,000 per unit.

Dunkin Donuts' initial franchise fee is $40,000, with royalties set at 4.9% of sales and advertising contribution pegged at 5% of sales. Only single-unit franchises are granted; franchisees must have cash assets of about $100,000.

THE STANDARD. Dunkin Donuts set the standard for the segment, and countless regional chains have followed suit. Notes Peter Johnson, director of marketing for 650-unit Mister Donut of America Inc., based in Minneapolis: "In the past six to nine months, we've been using more aggressive marketing—we're going after the business. Our marketing direction has changed from a point-of-sale approach to the aggressive use of radio and television in markets where the previous emphasis was on print and direct mail."

The chain, the second largest in the donut sector with units in the Midwest and eastern U.S., introduced its "fast feeder" concept last year, a self-service, fast-food-style line with separate seating, which is designed to serve more people in a shorter amount of time.

Explains Johnson: "With severe labor problems in the markets we serve, it's increased our productivity dramatically, and the bulk of our units are being remodeled using this concept." Approximately 125 units have the service concept.

In addition, about 25% of the menu mix is now comprised of baked goods such as brownies, cinnamon rolls, gourmet cookies, danish pastries, filled croissants, and breads, with a marketing emphasis in 1986 on the baked-good variety available at a Mister Donut.

Franchising growth will be concentrated in U.S. markets that are not fully penetrated. The chain also views Canada as an important expansion market. Mister Donut's initial fee is $20,000. Royalties are 4.9% and the franchisee must also pay 0.5% of weekly sales towards the chain's advertising efforts.

DONUT SHOPS (22 franchisors)

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1986	$1,198,144	$290,706	$907,438	3,510	1,036	2,474
1987*	1,315,097	293,768	1,021,329	3,702	1,012	2,690
1988*	1,489,026	307,090	1,181,936	3,983	1,006	2,977

*Estimated by respondents.

Although much smaller in size, with 25 units throughout Southern California, Donut Inn, Woodland Hills, CA, is going the same route, adding new bakery products such as muffins, brownies, and jumbo cinnamon rolls.

Says director of marketing Susan Ramirez: "Traditionally, we've had a heavily male customer base, but we're experiencing more appeal to women now because of our expanded bakery line. Our concept glorifies the donut—we have 72 varieties altogether—but pastries and other baked specialties help position our product as upscale."

The chain aggressively uses outdoor billboard advertising, local newspaper couponing, and an ongoing community relations effort in support of its franchisees. This past December, store managers tried a different way of packaging product to boost holiday sales with "Mrs. D's Gift Baskets," pre-ordered packages featuring donuts and other baked products for pick up or delivery at Donut Inn units.

Donut Inns are franchised on a single-unit basis, with franchisees paying a $20,000 initial franchise fee and 5.5% of sales in royalty fees; in addition, 3% of sales are kicked into the advertising fund.

The "fast pack" promotion tried by Winchell's Donut Houses, a division of Denny's Inc. based in La Mirada, CA, also targeted a convenience appeal for customers. Twelve of its cake donuts were prepackaged in a cellophane tray for easy pickup at any of the chain's 750 units, 60 of which are franchised. Single-unit franchises are available with an initial fee of $30,000; royalties and advertising contribution are 5% and 3% of sales, respectively.

The company reports that the chain's testing of other freshly baked products such as croissants, cinnamon buns, danish, turnovers, and cookies in its Las Vegas market last year is an effort to "increase customer counts." All bakery products are baked on-premise using frozen dough.

FURTHER AFIELD. Because the lunch daypart captures the largest share of the young adult market, according to a 1987 survey commissioned by the National Restaurant Association, some of the donut chains are going even further afield from their breakfast and baked goods roots to attract lunch business.

Cedar Rapids, IA-based Donutland Inc., with 25 franchised units and three company units, has recently added a sandwich program featuring deli-type sandwiches on croissants, according to Donutland president Mike Nichols.

"We hope this helps build our afternoon business and fill in the evening void. We've seen some increase in business thus far, but it's not been astronomical."

Donutland has also revamped its units with more contemporary decor, featuring neutral colors rather than the old orange-and-yellow color scheme. The company plans to add between five and eight additional units in 1988.

Tastee Donuts, a 55-unit chain based in Metairie, LA, added burgers to its menu in 1985, making Tastee Donut "a place to have lunch," according to marketing director Linda Sanapadre. Recent innovations have included drive-thru windows in new units, a kids' meal package, and new menu items such as chili to draw more business from various markets.

Dawn Donuts, based in Flint, MI, with 62 units, 33 of them franchised, is also testing deli items such as soup and sandwiches to increase its product offerings. The chain occupies a unique niche in the segment thanks to the shared-site arrangement it enjoys with a number of gasoline operators, occupying space on the same pad as the gas station.

"Many of our efforts to add new units have been aimed at gasoline operators who want to offer donuts and small convenience items," notes Bill Morin, director of franchising. As the first major donut chain operation to joint-venture with gasoline stations, Dawn Donuts is presently looking at ways to expand into the afternoon and evening dayparts with new menu items, and is negotiating with a fast-food concern to joint-venture on future locations.

Says Morin: "We think of our units as miniature 7-Eleven Centers, because they're convenience stores, but on a smaller scale." The company grants single- or multi-unit franchises with a $15,000 initial franchise fee, and charges 4.5% of sales in royalty fees and up to 4.5% of sales as an advertising fee.–**D.A.L.**

DONUT INN: *"Mrs. D's Gift Baskets" boost sales during holiday periods.*

C-STORE

CONVENIENCE STORES ARE GIVING THE FAST FEEDERS A RUN FOR THEIR COMPETITIVE MONEY.

The convenience store segment has become a major competitor of the restaurant industry, as an increasing number of "c-store" operators find that adding fast-food items to their lists of offerings is extremely profitable. The National Association of Convenience Stores estimates that gross profit on fast-food items is around 47%, compared to 35% on groceries and 7.3% on gasoline. The Department of Commerce reported more than 16,000 convenience stores in the franchised sector in 1986, with total sales of more than $12 billion.

MANNA FROM HEAVEN. Comments Max Fillmore, manager of a Flying J c-store in Ogden, UT, and president of the Utah Restaurant Association: "Fast food is like manna from heaven for a convenience outlet. A convenience store might be making a 25% gross profit on most of its items. Now they put in a delicatessen, and even though the deli might add only 15% in sales, the total profit margin jumps from 25% to 35%."

Although the segment first entered the foodservice arena back in the 1960s when Southland Corp.'s 7-Eleven stores began offering the Slurpee frozen beverage, c-stores are quickly accelerating into other dayparts. "The whole foodservice area is the hottest category in the c-store industry today," admits Tom Campbell, president of C-Store Concepts, a consulting firm based in a suburb of Dallas. "Every operator we see, independent or chain, is getting into foodservice, with an emphasis on evolving into different meal segments."

Johnny Quik Food Stores, a chain based in Clovis, CA, licenses its name to operators from Bakersfield to Marysville, CA. Brothers George and Ernest O. Beal launched the concept two years ago and have a dozen stores in operation, with an additional 10 new units planned for this year.

George Beal reports that between 30% and 35% of Johnny Quik sales come from fast food: "We don't offer anything in the way of deli foods, but stick to the hot dog and hamburger line, as well as pizza by the slice and what we call our 'take and bake' whole pizza program." Johnny Quik requires an initial franchising fee of $35,000 to $75,000, plus royalties of 10% of gross sales. Minimum cash requirement for a single-unit franchise is $110,000.

The White Hen Pantry chain, Elmhurst, IL, with 351 units in the Midwest and Northeast, "doesn't have much variety in foodservice," notes spokesperson Al Davis, but gets mileage out of its deli counter featuring freshly made sandwiches. "We're just your good old-fashioned convenience store—no bakery, no ovens," notes Davis. "But last year we introduced a double-stuffed sandwich on a French roll to our sandwich line."

ADVENTUROUS. Convenient Food Marts, based in Rosemont, IL, with 1,500 units, has been more adventuresome in the fast-food arena, with "quite

CONVENIENT FOOD MART: *an "adventurous" foodservice program.*

Item	1986	1987*	1988*	Percent Changes	
				1986-87	1987-88
Company-owned	8,974	9,245	9,598	3.0	3.8
Franchisee-owned	6,550	7,053	7,613	7.7	7.9
Total number of units	15,524	16,298	17,211	5.0	5.6
Company-owned	$6,732,322	$7,283,403	$7,857,425	8.2	7.9
Franchisee-owned	4,546,573	5,042,075	5,704,130	10.9	13.1
Total sales of products and services ($000)	$11,278,895	$12,325,478	$13,561,555	9.3	10.0
Merchandise (non-food) for resale	$90	$95	$100	5.6	5.3
Supplies (such as paper goods)	59	65	73	10.2	12.3
Food ingredients	225,556	247,902	272,524	9.9	9.9
Other	3,400	3,700	4,000	8.8	8.1
Total sales of products and services by franchisors to franchisees ($000)	$229,105	$251,762	$276,697	9.9	9.9

** Estimated by respondents.*

a few things going," says senior marketing vice president Marty Venturini.

"Ten test stores are featuring a fresh-baked muffin program using frozen dough delivered to the unit and baked on-premise. Our objective is to present a fresh, high-quality bakery program. We're also looking at brownies using a unique recipe, not just institutional batters." Once units are outfitted with convection ovens, the foodservice options will increase. The chain is looking at introducing pizza, cheese-coated breadsticks, and hot pocket sandwiches.

Venturini reports that fast-food service varies greatly throughout the chain "as stores are remodeled or new stores add foodservice equipment. We're expanding our offerings as long as the customers are demanding it. We're finding that people want what we call 'finger foods,' things they can eat with one hand, or that can be eaten in cars."

To strengthen its position in the Pacific Northwest, Convenient Food Marts acquired the 55-unit Minit Mart Quick Shop chain based in Vancouver, WA, with 47 franchised and seven company-owned stores in the Vancouver and Portland, OR, markets. Notes Maury O'Connell, vice president of franchise development for Convenient: "As we're remodeling our units, and encouraging franchisors to remodel theirs, we're encouraging them at the same time to try new products in the foodservice area. We want them to add more grocery items, fresh produce, and deli items, and to increase their fast-food offerings."

Minit Mart Quick Shop is in the process of adding deli cases to showcase meats and cheeses for Convenient Food Mart's "Deli Supreme Sandwich" line, featuring five types of submarine sandwiches. Says O'Connell: "As these units are being remodeled, we're putting in a special unit for preparing chicken and potatoes." The Minit Marts will also be rolling out Convenient's hot muffin program throughout 1988, featuring 10 varieties of baked-on-premise muffins.

O'Connell notes that cash requirements for a Convenient Food Mart franchisor include a $15,000 franchise fee, and about $35,000 for opening inventory; financing is available for the approximately $100,000 required for furniture, fixtures, and equipment. Of the 5% monthly sales royalty, Convenient kicks back 1% to the operator for advertising.

Dallas-based 7-Eleven, a chain of 8,000 convenience grocery stores, 40% of which are franchised, predominantly operates along the West Coast and in the Northeast, but has a smattering of stores in major Midwestern markets.

Publicity manager Don Cowan reports that the chain is committed to increasing public awareness of its units as fast-food purveyors: "Customers today are definitely aware that we are in the foodservice business."

Since the 1970s, when the chain first introduced deli sandwiches, 7-Eleven has expanded with such offerings as hamburgers, cheeseburgers, and a hot ham and cheese sandwich.

Spokesperson Pat Lagow reports that the latest fast-food entry, "The Works" complimentary condiment bar, is currently in all company stores, but there are no plans to expand the concept to franchised stores, primarily due to parent Southland Corp.'s recent leveraged buyout. The Works holds between 10 and 15 items such as onions, relish, cheese, chili, and hot sauces for garnishing any sandwiches and hamburgers.

The company has ended cooperative joint-venture tests with Hardee's and Church's Fried Chicken, but is still testing a a joint venture with Dunkin' Donuts and Winchell's Donuts. And 10 7-Eleven stores in the Washington, DC, area have introduced "The Greeting Express" electronic machine featuring specialty food items and packaged goods.

After paying, on a national average, a franchise fee of $43,000, a 7-Eleven franchisee splits gross profits with the company on a 52-to-48% basis, with the franchisee retaining 48%.

Although c-stores are already tapping the breakfast, luncheon, and snack markets, the dinner-hour segment is still wide open. Says Tom Campbell: "An enormous opportunity exists for c-stores to offer take-home, ready-to-consume, freshly prepared whole dinners. And because a c-store offers a lot more than a McDonald's in terms of other retail items, customers are attracted to this one-stop shopping. It's not a far-fetched [illegible] **A.L.**

RESTAURANT FRANCHISING IN THE ECONOMY

STEADY GROWTH CONTINUES IN SALES, EMPLOYMENT, UNITS, AND INTERNATIONAL EXPANSION.

This article was prepared by Andrew Kostecka, based on an annual report by the U.S. Department of Commerce. Top 30 data was compiled by Restaurant Business.

Now an entrenched force in the U.S. economy, franchising continues its steady growth in sales, employment, units, and international expansion, offering tremendous opportunities to individuals seeking their own businesses and companies looking for wider distribution for their products, systems, and services. Franchising has become so powerful in part because economic factors have made growth through company-owned units difficult for many businesses. In addition, franchisees are enjoying a competitive edge over other small-business entrepreneurs by the use of trade names, marketing expertise, acquisition of a distinctive business appearance, standardization of products and services, training, and advertising support from the parent.

Franchising represents the small entrepreneur's best chance to compete with giant companies that dominate the marketplace. Without franchising, thousands of small businesspeople would never have had the opportunity to own their own businesses.

Franchising sales of goods and services in more than 509,000 outlets are expected to reach almost $640 billion in 1988, about 7% higher than a year earlier and about 91% over the level of sales at the start of the 1980s. Employment in franchising, including part-time workers and working proprietors, was 6.5 million in 1986 and will probably reach more than 7.3 million by the end of 1988. Movement by U.S. franchisors to foreign markets continues to grow at a rapid rate; in 1986 there were 354 U.S. franchisors with over 31,600 outlets located in most countries.

Product and trade-name franchising, including automobile and truck

MAJOR ACTIVITY	Firms
Chicken	33
Hamburgers, Franks, Roast Beef	111
Pizza	105
Mexican	36
Seafood	17
Pancakes, Waffles	12
Steak, Full Menu	117
Sandwich and Other	57
TOTAL	488

* Estimated by respondents.

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TOTAL	488

* Estimated by respondents

RESTAURANT FRANCHISING, 1986-1988
SALES ($000)

1986			1987*			1988*		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
$4,375,275	$1,705,208	$2,670,067	$4,821,580	$1,850,141	$2,971,439	$5,442,603	$2,064,090	$3,378,513
25,158,486	6,398,080	18,760,406	27,257,232	6,662,933	20,594,299	29,999,331	7,233,836	22,765,495
7,459,493	2,916,096	4,543,397	8,126,293	3,171,192	4,955,101	9,152,448	3,516,405	5,636,043
2,889,490	1,594,729	1,294,761	3,078,981	1,682,443	1,396,538	3,342,253	1,797,775	1,544,478
1,363,710	802,535	561,175	1,479,704	875,194	604,510	1,689,180	1,001,510	687,670
1,203,357	401,143	802,214	1,308,610	429,865	878,745	1,452,450	468,300	984,150
9,046,395	4,895,423	4,150,972	9,811,267	5,259,970	4,551,297	10,899,728	5,715,234	5,184,494
			956,327	95,162	861,165	1,253,126	130,813	1,122,313
$52,273,863	$18,803,699	$33,470,164	$56,839,994	$20,026,900	$36,813,094	$63,231,119	$21,927,963	$41,303,156

RESTAURANT FRANCHISING, 1986-1988
NUMBER OF UNITS

1986			1987*			1988*		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
8,968	3,149	5,819	9,391	3,218	6,173	9,888	3,332	6,556
31,511	6,870	24,641	33,031	7,047	25,984	35,105	7,382	27,723
16,221	5,292	10,929	17,739	5,769	11,970	19,912	6,342	13,570
4,460	2,057	2,403	4,733	2,110	2,623	5,119	2,227	2,892
2,518	1,438	1,080	2,684	1,552	1,132	2,917	1,681	1,236
1,830	603	1,227	1,921	625	1,296	2,069	658	1,411
9,628	4,672	4,956	10,044	4,789	5,255	10,904	5,066	5,838
3,067	283	2,784	3,788	288	3,500	4,875	339	4,536
78,203	24,364	53,839	83,331	25,398	57,933	90,789	27,027	63,762

deals and gasoline service stations, is characterized by an independent sales relationship between supplier and dealer. Total sales by product and trade-name franchisors are expected to reach an estimated $450 billion in 1988, compared with $430 billion in 1987 and $414 billion in 1986. Since 1972, the establishment of product and trade-name franchisors declined at a rapid rate; for example, there was a net loss of almost 111,000 gasoline service stations between 1972 and 1987 alone. The attrition rate of service stations is expected to slow in the next few years, and in 1988, the number of these establishments is expected to decline to 140,820—from 144,571 in 1987 and 149,313 in 1986.

Business format franchising, on the other hand, is characterized by an ongoing business relationship between franchisor and franchisee that includes not only the product, service, and trademark, but the entire business concept itself—a marketing strategy and plan, operating manuals and standards, quality control, and a continuing process of assistance and guidance. Restaurants fall into this category.

Business format franchising has been responsible for much of the growth of franchising in the U.S. since 1950 and will continue to offer opportunities for those individuals seeking their own businesses.

The volume of sales and the number of units owned or franchised by business format franchisors have been steadily on the rise since 1972. Sales of business format franchisors are expected to reach almost $190 billion in 1988, compared with $170 billion in 1987 and $156 billion in 1986. In contrast to product and trade-name franchises, the number of establishments of business format franchisors is ex-

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THE FRANCHISING ECONOMY

FRANCHISEES HAVE A COMPETITIVE EDGE OVER INDEPENDENTS.

pected to increase to over 368,000 in 1988, compared with 334,516 in 1987 and 312,810 in 1986.

The number of business format franchisors offering their products and/or services to prospective franchisees has also been rising steadily since 1972, and this upward trend is expected to continue for the remainder of the 1980s, as more companies expand their distribution through franchising.

DOMINANT. Large franchisors, those with 1,000 or more units each, continue to dominate business format franchising, with 56 companies accounting for 48% of all sales and 49% of all establishments in 1986. The total number of outlets reported by these large franchisors stood at 154,328, with sales of $74.1 billion. Fourteen of these large franchisors were engaged in restaurants and nine were in automobile products and services.

Sales of products and services by business format franchisors to their franchisees totaled $9.7 billion in 1986 and might rise to about $11.8 billion by 1988. Franchisor sales of merchandise for resale were largest in the non-food retailing category—$4.2 billion in 1986—followed by automotive products and services at $2.1 billion. Franchising sales of food ingredients amounted to $2.2 billion in 1986, of which $1.2 billion went to restaurants and $712 million to food retailers other than convenience stores.

Franchising, still in a relative state of infancy compared to the life span of

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INTERNATIONAL RESTAURANT FRANCHISING IN 1986
LOCATION AND NUMBER OF UNITS*

	U.S. Firms	Total	Canada	United Kingdom	Europe	Japan	Other Asia	Australia	New Zealand	Africa	Caribbean	Mexico	Central America	South America
Chicken	7	1,982	15	327	35	634	232	255	46	190	146	72	16	14
Hamburgers, Franks and Roast Beef	13	3,461	1,171	253	570	772	266	241	26	0	64	3	39	56
Pizza	17	863	399	19	36	62	33	171	40	8	47	27	21	0
Mexican	5	107	92	1	1	0	1	10	0	0	0	0	0	2
Seafood	3	11	7	0	0	4	0	0	0	0	0	0	0	0
Pancakes, Waffles	2	18	3	0	0	13	2	0	0	0	0	0	0	0
Steak, Full Menu	16	291	162	8	0	63	17	14	0	0	8	12	0	0
Sandwich, Other	2	36	20	0	0	0	1	0	0	0	15	0	0	0
Total	65	6,769	1,869	608	642	1,548	552	691	112	198	280	121	76	72

** Includes company-owned, franchisee-owned and joint ventures.*

U.S. FRANCHISED RESTAURANTS SUMMARY

Item	1986	1987*	1988*	Percent Changes 1986-87	Percent Changes 1987-88
Company-owned	24,364	25,398	27,027	4.2	6.4
Franchisee-owned	53,839	57,933	63,762	7.6	10.1
Total number of units	78,203	83,331	90,789	6.6	8.9
Company-owned	$18,803,699	$20,026,900	$21,927,963	6.5	9.5
Franchisee-owned	33,470,164	36,813,094	41,303,156	10.0	12.2
Total sales of products and services ($000)	$52,273,863	$56,839,994	$63,231,119	8.7	11.2
Merchandise (non-food) for resale	$162,269	$177,092	$220,590	9.1	24.6
Supplies (such as paper goods)	292,023	274,332	533,500	-6.1	94.5
Food ingredients	1,240,183	1,299,326	1,467,839	4.8	13.0
Other	55,165	60,366	67,042	9.4	11.1
Total sales of products and services by franchisors to franchisees ($000)	$1,749,640	$1,811,116	$2,288,971	3.5	26.4

** Estimated by respondents.*

For more information on Treasure Isle circle number 285 ➞

THE FRANCHISING ECONOMY

SMALL ENTREPRENEURS CAN COMPETE WITH GIANT COMPANIES.

ed in 1987, and this growth trend is expected to continue for the next few years. Franchising can enable these new franchisors to saturate existing markets or penetrate new markets at minimal cost.

- Education will play an important role in the evolution of franchising as programs related to franchising are increasingly being taught in current courses in marketing and business.
- A slowly growing U.S. population, shifting demographic patterns, and the use of new technology has in-

and expansion by U.S. franchisors to foreign markets throughout the world.

Penetration into foreign markets by American franchisors continues to grow, enabling them to expand and gain international recognition of their services, trade names, trademarks, and products. In 1986, 354 U.S. business format franchisors operated 31,626 outlets in most countries of the world; this compares with 342 franchisors with 30,188 outlets a year earlier. American franchisors have never been more competitive, as markets in many

U.S. FRANCHISED RESTAURANTS* NUMBER OF ESTABLISHMENTS BY STATE: 1986

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	1,242	319	923	Nebraska	625	186	439
Alaska	127	19	108	Nevada	344	112	232
Arizona	1,240	416	824	New Hampshire	166	47	119
Arkansas	741	130	611	New Jersey	1,307	303	1,004
California	8,527	2,488	6,039	New Mexico	629	113	516
Colorado	1,317	329	988	New York	2,422	608	1,814
Connecticut	601	114	487	North Carolina	1,957	468	1,489
Delaware	181	83	98	North Dakota	193	13	180
District of Columbia	157	80	77	Ohio	4,189	1,41-	2,779
Florida	4,222	1,571	2,651	Oklahoma	1,508	582	926
Georgia	2,457	1,033	1,424	Oregon	798	145	648
Hawaii	269	101	168	Pennsylvania	2,430	850	1,580
Idaho	245	23	222	Rhode Island	279	24	255
Illinois	3,379	1,195	2,184	South Carolina	1,116	298	818
Indiana	2,204	652	1,552	South Dakota	226	28	198
Iowa	1,137	216	921	Tennessee	1,664	566	1,098
Kansas	1,018	285	733	Texas	7,237	2,843	4,394
Kentucky	1,506	407	1,099	Utah	393	83	310
Louisiana	1,233	485	748	Vermont	61	4	57
Maine	181	15	166	Virginia	1,868	644	1,224
Maryland	1,135	443	692	Washington	1,105	295	810
Massachusetts	830	254	576	West Virginia	546	166	380
Michigan	2,919	923	1,996	Wisconsin	1,459	355	1,104
Minnesota	1,373	356	1,017	Wyoming	189	21	168
Mississippi	750	146	604				
Missouri	1,844	657	1,187	**TOTAL**	**73,790**	**22,910**	**50,880**
Montana	244	6	238				

** Represents 94% of total establishments. The remaining 6% were unable to provide a geographic breakdown for this report.*

other marketing methods, has played an important role in the evolution of the service sector of the American economy. All trends indicate that franchising will continue to expand rapidly.

- Rising personal income, stable prices, high levels of consumer optimism, and increased competition for market share are turning many companies, both small and large, to franchising. Over 500 companies have become franchisors in the two-year period end-

tensified competition among franchising companies. These factors have increased the number of mergers and acquisitions in the franchising system and it is expected that this will persist during the next few years.

Some specific franchise areas in foodservice that bear scrutiny in the 1990s are quick lube and oil change centers, diet services, beauty salons, maid services, temporary help services, carry-out restaurant services,

foreign countries are increasingly exhibiting the same attributes that fostered the franchising surge in the U.S.

These attributes include the rising demand for consumer goods and services, expanding urbanization, increasing mobility, rising disposable income, and the shifting of emphasis from manufacturing to services.

There are a number of ways to enter foreign markets: franchising directly

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← For more information on Haverpride circle number 275

THE FRANCHISING ECONOMY

MORE AND MORE COMPANIES ARE EXPANDING THROUGH FRANCHISING.

to individuals, company-owned operations, joint ventures, or master franchising. Many franchisors use more than one method in conducting foreign operations, but the most popular, least expensive, and fastest method is the master license technique. Of the 354 franchisors now operating in foreign countries in 1986, 329 sold their units to franchisees (either directly or through a master licensee who received the right to develop the franchisor's system in a specific country or region), 42 operated joint ventures, and 39 had some company-owned outlets. Thirty-one of the franchisors operating in foreign markets in 1986 reported that they derived 10% or more of their income from these international operations; 33 franchisors received between 5 and 9%; 119 received between 1 and 4%; and 171 received less than 1%.

The survey also revealed that an additional 228 franchisors have indicated that they are considering extending the operations to foreign countries by the end of 1989. This interest has been expressed mostly by small- and medium-sized franchisors, marketing a variety of services and products. Of the companies seeking foreign expansion,

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RESTAURANT FRANCHISING GROWTH IN SALES, 1982-1987 (SALES: $000)

Major Activity	Total Sales			Company-Owned			Franchisee-Owned		
	1982	1987*	% Change	1982	1987*	% Change	1982	1987*	% Change
Chicken	$2,947,512	$4,821,580	64	$1,109,122	$1,850,141	67	$1,838,390	$2,971,439	62
Hamburgers, Franks, Roast Beef	16,862,890	27,257,232	62	4,482,780	6,662,933	49	12,380,110	20,594,299	66
Pizza	3,740,072	8,126,293	117	1,419,723	3,171,192	123	2,320,349	4,955,101	114
Mexican	1,258,054	3,078,981	145	645,034	1,682,443	161	613,020	1,396,538	128
Seafood	1,372,485	1,479,704	8	755,800	875,194	16	616,685	604,510	-2
Pancakes, Waffles	893,625	1,308,610	46	277,994	429,865	55	615,631	878,745	43
Steak, Full Menu	6,708,742	9,811,267	46	3,229,808	5,259,970	63	3,478,844	4,551,297	31
Sandwich and Other	375,138	956,327	155	64,717	95,162	47	310,421	861,165	177
Total	**34,158,518**	**56,839,994**	**66**	**11,985,068**	**20,026,900**	**67**	**22,173,430**	**36,813,094**	**66**

** Estimated by respondents.*

RESTAURANT FRANCHISING GROWTH IN UNITS, 1982-1987

Major Activity	Total Units			Company-Owned			Franchisee-Owned		
	1982	1987*	% Change	1982	1987*	% Change	1982	1987*	% Change
Chicken	7,773	9,391	21	2,591	3,218	24	5,182	6,173	19
Hamburgers, Franks, Roast Beef	27,285	33,031	21	6,100	7,047	16	21,185	25,984	23
Pizza	10,629	17,739	67	3,700	5,769	56	6,929	11,970	73
Mexican	3,059	4,733	55	1,399	2,110	51	1,660	2,623	58
Seafood	2,840	2,684	-6	1,312	1,552	18	1,528	1,132	-26
Pancakes, Waffles	1,645	1,921	17	516	625	21	1,129	1,296	15
Steak, Full Menu	9,135	10,044	10	4,020	4,789	19	5,115	5,255	3
Sandwich and Other	1,810	3,788	109	379	288	-24	1,431	3,500	145
Total	**64,176**	**83,331**	**30**	**20,017**	**25,398**	**27**	**44,150**	**57,933**	**31**

** Estimated by respondents.*

THE FRANCHISING ECONOMY

LARGE FRANCHISORS CONTINUE TO DOMINATE BUSINESS FORMATTING.

Canada, down from a high of 46% in 1971. A total of 237 franchisors with 9,031 units operated in Canada in 1986.

Japan continues to be the second largest market for U.S. franchisors, with a total of 7,366 units, of which 72% represent various food categories such as restaurants, donut shops, ice cream stores, and convenience food stores.

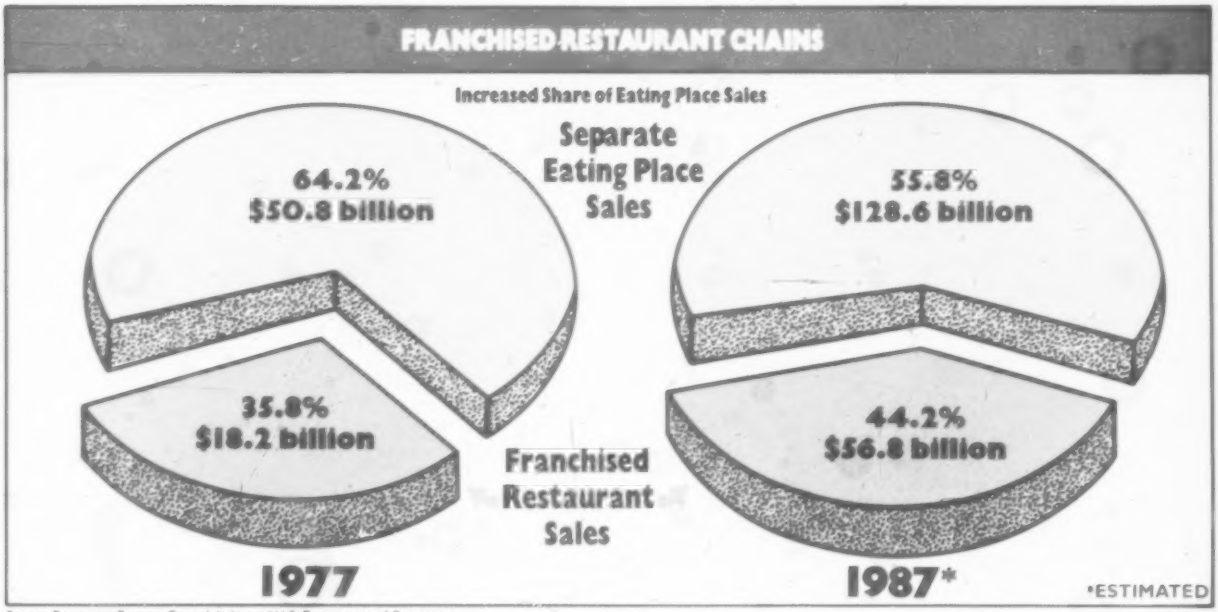
Australia ranks third with 2,816 outlets, followed by the United Kingdom with 2,415. A total of 4,844 outlets are located in continental Europe.

Retailing dominates franchising, accounting for 87% of all franchising receipts in 1987. The retail sales of all firms associated with franchising reached about $522 billion in 1987, or 34% of all U.S. retail sales, estimated at $1.5 trillion.

The marketplace will continue to diversify, with specialty retail stores offering more services and providing an increasing array of new products. Apparel stores, especially stores that sell women's ready-to-wear clothing, should show considerable gains. However, an increase in mortgage interest rates may slow the construction of new homes and result in a less positive outlook for the sale of consumer durables.

RESTAURANTS. Franchise restaurants are faced with growing competition from within the industry and to a limited extent from supermarkets and specialty food stores that prepare take-out orders. Other competitors include department stores, which offer various options, ranging from fast-food outlets to expensive restaurants. Hotels also compete through service in dining rooms and as caterers.

Restaurant franchisors are reacting to intensified competition in a variety of ways. They are redefining their objectives and returning to their original concepts, concentrating on food sales, broadening their menus, and maintaining good customer relations.



Source: Restaurant Business Growth Index and U.S. Department of Commerce

50 are franchisors of business aids and services; 38 are restaurant franchisors; 37 are retailers of non-food products; and 34 are retailers of various food products and related services.

Canada, Japan, Australia, the United Kingdom, and continental Europe, especially France, West Germany, The Netherlands, and Belgium, are the areas where U.S. franchised units are most heavily concentrated. Franchisors are extremely attracted to these countries because they have relatively sophisticated economies, fewer governmental controls on investment than developing countries have, and generally high levels of prosperity.

Canada is the leading market for U.S. franchisors despite its declining share of U.S. foreign outlets. In 1986, 29% of all U.S. foreign outlets were located in

To compete with other restaurant chains, many franchise operators have become more customer-oriented and are offering such amenities as waiter service, self-service, and drive-thru service. Most restaurants offer one type or the other; 20 franchisors offer both types of services, although one type clearly dominates.

Meanwhile, more and more franchisors continue to inaugurate home-delivery service to satisfy growing consumer demand. Home delivery is successful in fast food but is also spreading to upscale restaurants.

Sales of franchised restaurants of all types reached almost $57 billion in 1987, up 9% over a year earlier; they are expected to jump about 11%, to $63 billion in 1988. Franchised restaurants

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TOP 30 FRANCHISE RESTAURANT SYSTEMS
1986-87 Systemwide Sales

Chain Name (Parent Co.)	1987					1986	'86-'87
	Fiscal Year	Systemwide	Avg. Unit Volume	Company-Owned	Franchisee-Owned	Systemwide	% Total Change
1 McDonald's	12/87	$14,300	$1,443,000	$4,800	$9,500	$12,432	15.0
2 Burger King (Pillsbury Co. Inc.)	5/87	5,179*	1,092,000*	794*	4,385*	4,500	15.1
3 Kentucky Fried Chicken (PepsiCo Inc.)	12/87	4,100	659,000	1,036*	3,064*	3,560	15.2
4 Hardee's (Imasco Ltd.)	12/87†	3,100	878,000*	1,400	1,700	2,700	14.8
5 Pizza Hut (PepsiCo Inc.)	12/87	3,000	500,000	1,400	1,600	2,600	15.3
6 Wendy's	12/87	2,817*	767,000*	992*	1,825*	2,747	2.5
7 Domino's Pizza	12/87	1,906	483,000*	513*	1,393*	1,570	21.4
8 International Dairy Queen	11/87	1,894	385,000*	2*	1,892*	1,723	9.9
9 Taco Bell (PepsiCo Inc.)	12/87	1,502*	560,000*	825*	677*	1,350	11.3
10 Denny's (T.W. Services Inc.)	12/87	1,221	1,000,000	1,045	176	1,245	-1.9
11 Arby's (Royal Crown Cola Inc.)	12/87	1,000	541,000*	109*	891*	900	11.1
12 Big Boy (Elias Bros. Restaurants)	12/87	950	1,000,000	80	870	899	5.7
13 Sizzler (Collins Foods Int'l. Inc.)	12/87	750	1,420,000*	248*	502*	600	25.0
14 Long John Silver's (Jerrico Inc.)	6/87	737	525,000*	451	286	697	5.7
15 Dunkin' Donuts	10/87	729	437,000*	12*	717*	648	12.5
16 Little Caesar's	12/87	725	464,000*	176*	549*	520	39.4
17 Shoney's	10/87	719	1,255,000*	333	386	640	12.3
18 Ponderosa	2/87	675	1,060,000*	425	250	606	11.4
19 Jack in the Box (Foodmaker Inc.)	9/87	655	750,000*	512	143	584	12.2
20 Baskin-Robbins (Allied Lyons PLC)	12/87	654*	195,000*	36*	618*	575*	2.6
21 Roy Rogers (Marriott Corp.)	12/87	568*	1,000,000*	328*	240*	527*	6.8
22 Church's	12/87	580*	390,000*	418*	162*	578	-5.5
23 Bonanza Restaurants (USACafes L.P.)	12/87	530	904,000*	2	528	472	12.3
24 Western Sizzlin'	10/87	470	813,000*	4	466	445	5.6
25 Popeyes (A. Copeland Interests)	10/87	460	663,000*	80	380	409	12.5
26 Chi-Chi's	12/87	403	1,966,000*	274	129	390	3.3
27 Village Inn (VICORP Restaurants Inc.)	10/87	382	1,436,000*	283	99	351	8.8
28 Rax	7/87	358	702,000	107	251	329	8.8
29 Captain D's	10/87	343	617,000*	200	143	317	8.2
30 Perkins	12/87	342	1,033,000*	123	219	315	8.6

1986-87 Systemwide Units

Chain Name (Parent Co.)	1987			1986			'86-'87
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned	% Change
1 McDonald's	9,911	3,151	6,760	9,410	2,301	7,109	5.3
4 Burger King (Pillsbury Co. Inc.)	5,179	794	4,385	4,743	838	3,905	9.2
2 Kentucky Fried Chicken (PepsiCo Inc.)	7,522	1,901	5,621	6,575	1,922	4,653	14.4
9 Hardee's (Imasco Ltd.)	2,912	963	1,949	2,724	897	1,827	6.9
3 Pizza Hut Inc. (PepsiCo Inc.)	6,163	2,863	3,300	5,646	2,700	2,946	9.1
7 Wendy's	3,848	1,259	2,589	3,727	1,335	2,392	3.2
6 Domino's	4,279	1,109	3,170	3,605	953	2,652	18.7
5 International Dairy Queen	5,002	5	4,997	4,931	6	4,925	1.4
10 Taco Bell (PepsiCo Inc.)	2,682	1,473	1,209	2,171	1,160	1,011	23.5
16 Denny's (T.W. Services Inc.)	1,221	1,045	176	1,245	1,087	158	-1.9
11 Arby's (Royal Crown Cola Inc.)	1,848	202	1,646	1,683	191	1,492	9.8
17 Big Boy (Elias Bros. Restaurants)	950	80	870	899	170	729	5.7
26 Sizzler (Collins Foods Int'l. Inc.)	567	189	378	488	153	335	16.2
15 Long John Silver's (Jerrico Inc.)	1,420	887	533	1,388	844	544	2.3
13 Dunkin' Donuts	1,669	29	1,640	1,539	44	1,495	8.4
12 Little Caesar's	1,820	441	1,379	1,308	330	978	39.1
21 Shoney's	604	261	343	542	236	306	11.4
20 Ponderosa	657	400	257	616	430	186	6.7
18 Jack in the Box (Foodmaker Inc.)	897	639	258	849	670	179	5.7
8 Baskin-Robbins (Allied Lyons PLC)	3,398	189	3,209	3,311	184	3,127	2.6
24 Roy Rogers (Marriott Corp.)	583	344	239	553	345	208	5.4
14 Church's	1,486	1,072	414	1,532	1,135	397	-3.0
22 Bonanza (USACafes L.P.)	600	2	598	571	3	568	5.0
23 Western Sizzlin'	587	4	583	568	3	565	3.3
19 Popeyes (A. Copeland Interests)	730	112	618	658	112	546	10.9
30 Chi-Chi's	205	138	67	200	132	68	2.5
29 Village Inn (VICORP Restaurants Inc.)	272	141	131	259	136	123	5.0
27 Rax	520	156	364	498	153	345	4.4
25 Captain D's	574	332	242	537	305	232	6.9
28 Perkins	334	114	220	328	110	218	1.8

*Estimated by RB † Hardee's changed from fiscal year 1986 ending March to fiscal year 1987 ending December

NOTE: 1) Data includes international operations

2) Systemwide sales (company and franchise) are shown in ($000,000s)

3) Number next to company name indicates respective sales or unit ranking

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THE FRANCHISING ECONOMY

FRANCHISING OFFERS MANY NEW OPPORTUNITIES FOR GROWTH.

numbered 78,203 in 1986, increased to 83,331 in 1987, and are expected to rise to almost 91,000 in 1988. The highest concentrations of franchised restaurants continue to be in California, Texas, Ohio, and Florida.

Internationally, operations of franchised restaurants continued to grow in number of units in 1987, rising to 6,769 from 6,122 a year earlier. Canada accounted for the largest number of restaurants, followed closely by Japan. Restaurants with major activity in hamburgers, frankfurters, and roast beef accounted for the largest number of outlets, followed by chicken and pizza. Another 38 franchisors of restaurants plan to extend their operations to foreign countries by the end of 1989.

Employment in the franchised restaurant sector was 2,453,621 in 1986, up from 2,441,947 a year earlier, a rise of 5%. Employment in the franchised restaurant industry accounts for 38% of employment in the franchised system as a whole and should continue to rise in the next few years.

Furthermore, franchised restaurant employees accounted for an estimated 41% of all persons employed in eating places in the U.S.

There were 14 big franchisors with over 1,000 units each in 1986. Combined, they represented 57% of all restaurants in the franchise system, or 44,568 restaurants, of which 30,755 were franchisee-owned and 13,813 were company-owned. They also represented 62% of total franchised restaurant sales—$32 billion, of which $22 billion was by franchisee-owned units.

In 1986, a larger number of restaurants were converted to franchisee ownership than were repurchased for company operation. Most of the buybacks were temporary, with the companies intending to resell them to prospective franchisees at a later date.

During 1987, 19 franchisors with a total of 392 restaurants (329 franchisee-owned) went out of business, while 14 franchisors with a total of 180 restaurants (72 franchisee-owned) decided to abandon franchising.

FOOD RETAILING. The retailing of food by specialty food shops such as ice cream stores, coffee services, donut shops, bakeries, cookie shops, candy stores, and nut stores amounted to $11.1 billion in 1987, 3% over the previous year; sales in 1988 are expected to reach $12.1 billion. In 1988, the number of units is expected to rise to 23,647, a jump of 15% over the year before.

Two of the better-known groups in this category are donut shops and ice cream and yogurt stores.

Convenience food stores are an important factor in food retailing. Because of changing demographics and lifestyles, they have expanded rapidly, evolving into a large and sophisticated segment of food retailing. Many resemble scaled-down, modern supermarkets and offer on-premise foodservice facilities and self-service gasoline.

ENTRY INTO FOREIGN MARKETS BY U.S. FRANCHISORS CONTINUES.

Currently, c-store foodservice is becoming more important. Almost all convenience stores offer some type of foodservice, at least hot beverages and fresh pastries. Many stores offer a wide variety of foodservice items: hot and cold sandwiches, pizza, and hot dogs. Many stores have installed bulk soft drink (post-mix) dispensing apparatuses because of higher profit margins compared with bottled beverages.

Despite intensified competition from supermarkets offering extended hours and Sunday shopping, convenience store sales moved up 9% to $12.3 billion in 1987. The number of franchised stores in 1987 was reported to be 16,298, up 5%. Further gains are expected in 1988: 10% in sales and 6% in stores.

LEISURE AND TRAVEL. Americans are increasing their weekend and vacation travel, which, although affected periodically by changes in the economy, has grown steadily in recent years. Factors that have fostered this growth include expanded leisure time, rising disposable personal income, lower gasoline prices, and the mounting number of single-member households. With sales estimated at $21.8 billion in 1987, franchisors expect a 13% increase in 1988, to an estimated $24.7 billion. The number of establishments is also expected to increase from 17,462 in 1987 to 19,284 in 1988.

In 1986, 48% of hotel and motel users were traveling for pleasure, and this figure is expected to rise in the years ahead. The downward shift in the strength of the U.S. dollar against many foreign currencies has helped to increase domestic travel. The number of Americans expected to take a vacation trip will grow in 1988 as these trips get longer in both distance and duration. Franchising firms engaged in the recreation, entertainment, and travel business report estimated sales of $4 billion in 1987. In 1988, sales are expected to climb to $5 billion.

Occupancy rates in the lodging industry have been about 66% in 1987. The lodging industry is expecting occupancies to increase in 1988 to about 67%. Room rates are expected to increase at an average rate of 5 to 6% in 1988. Rates at the more popular all-suite properties and budget hotels are likely to rise more rapidly.

The economy's rate of growth, shifting demographic patterns, the use of new technology, government policies, and the availability of qualified personnel will influence the size and direction of the lodging industry over the next five years. The trend toward diversification in the accommodations offered by hotel chains is expected to continue, although at a somewhat slower pace. The greatest growth is expected to occur in all-suite properties and in economy properties that have limited space. Older citizens constitute a fast-growing segment of the population, and hotels are expected to launch more programs aimed at them.

Hotel, motel, and campground franchisors in 1987 represented 9,278 establishments, with receipts estimated at $17.7 billion. Receipts in 1988 are expected to rise 11%, reaching $19.7 billion. Total 1987 receipts for the lodging industry are estimated at $45.3 billion, of which 39% is accounted for by hotels and motels in the franchise system.–**A.K.**